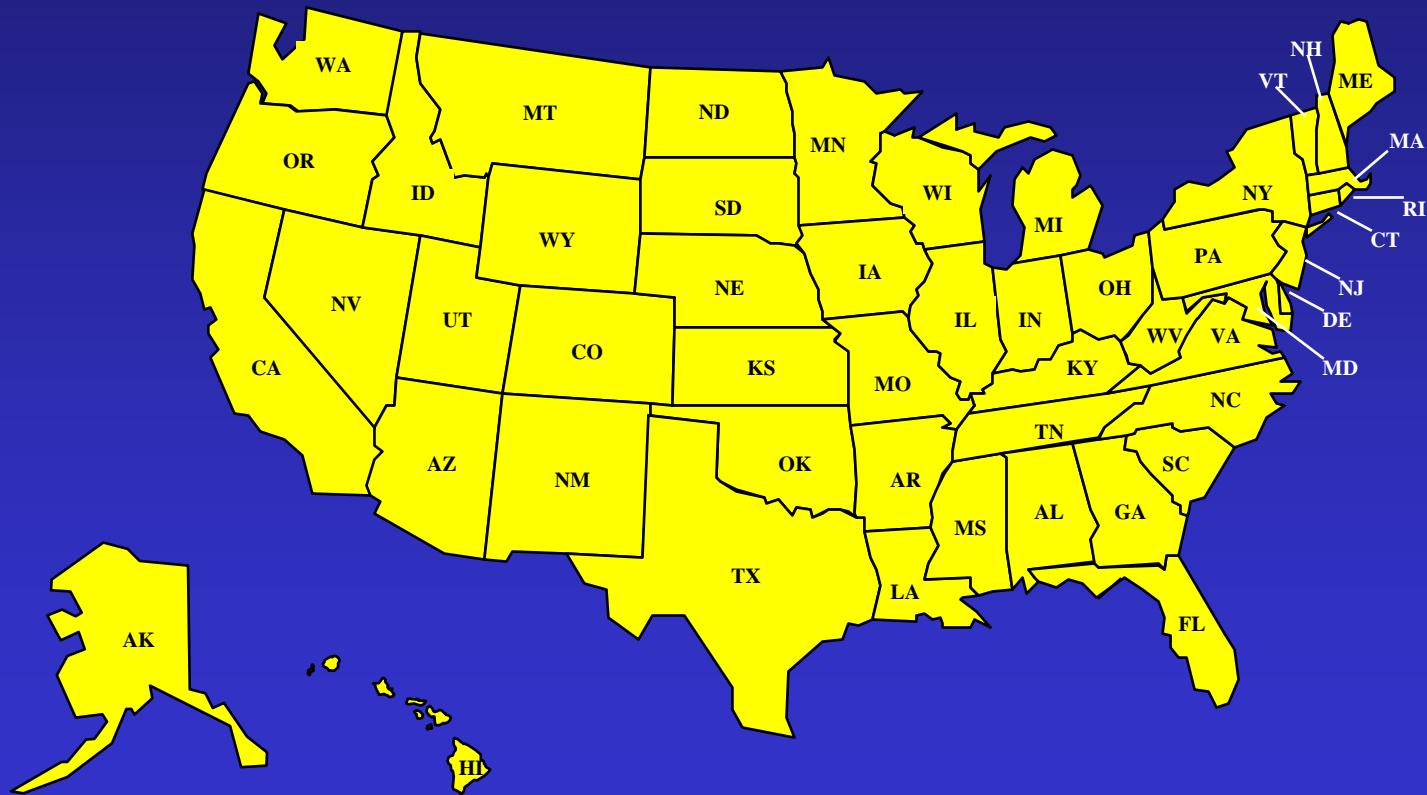


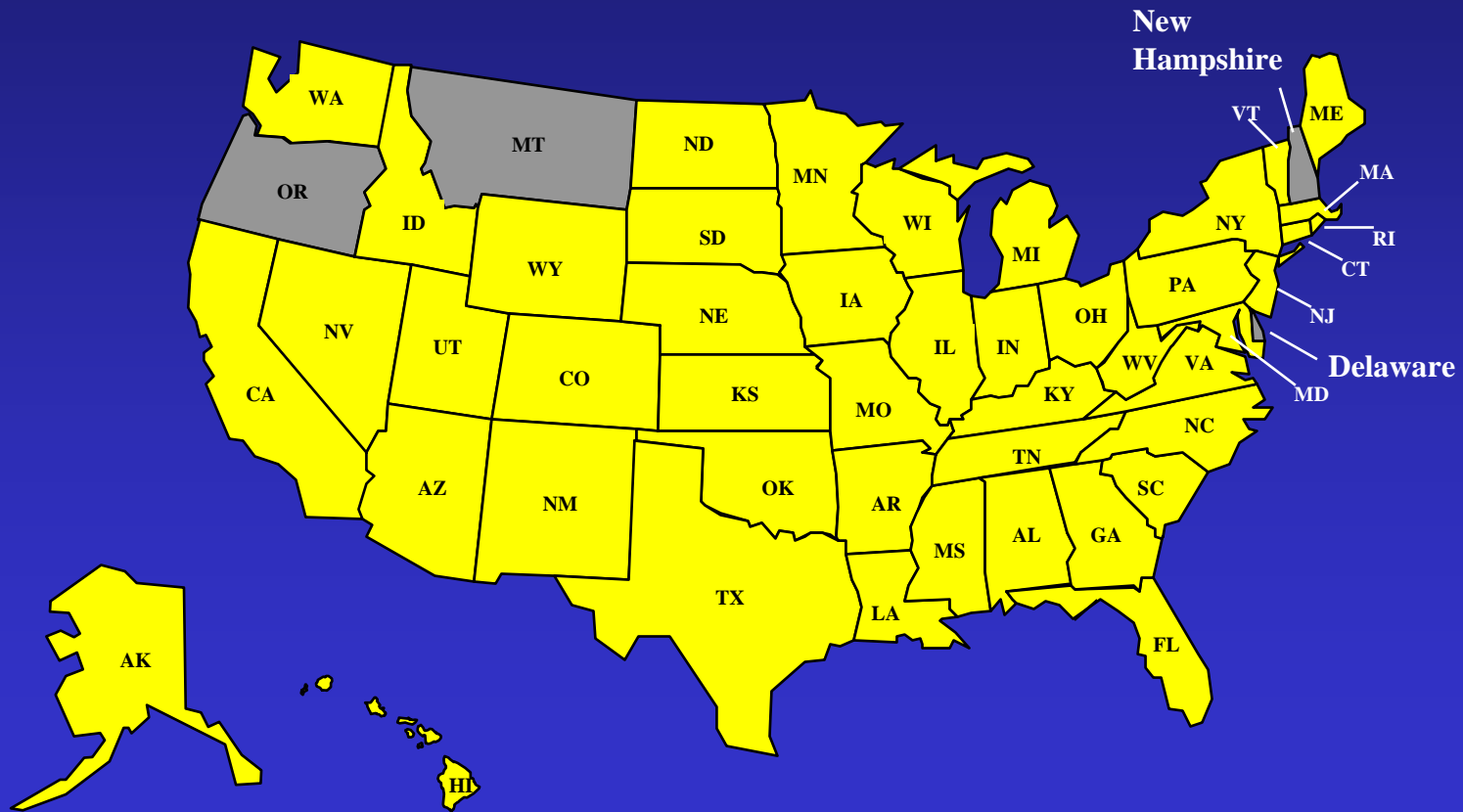
Washington's Tax System

Presented by the Department of Revenue

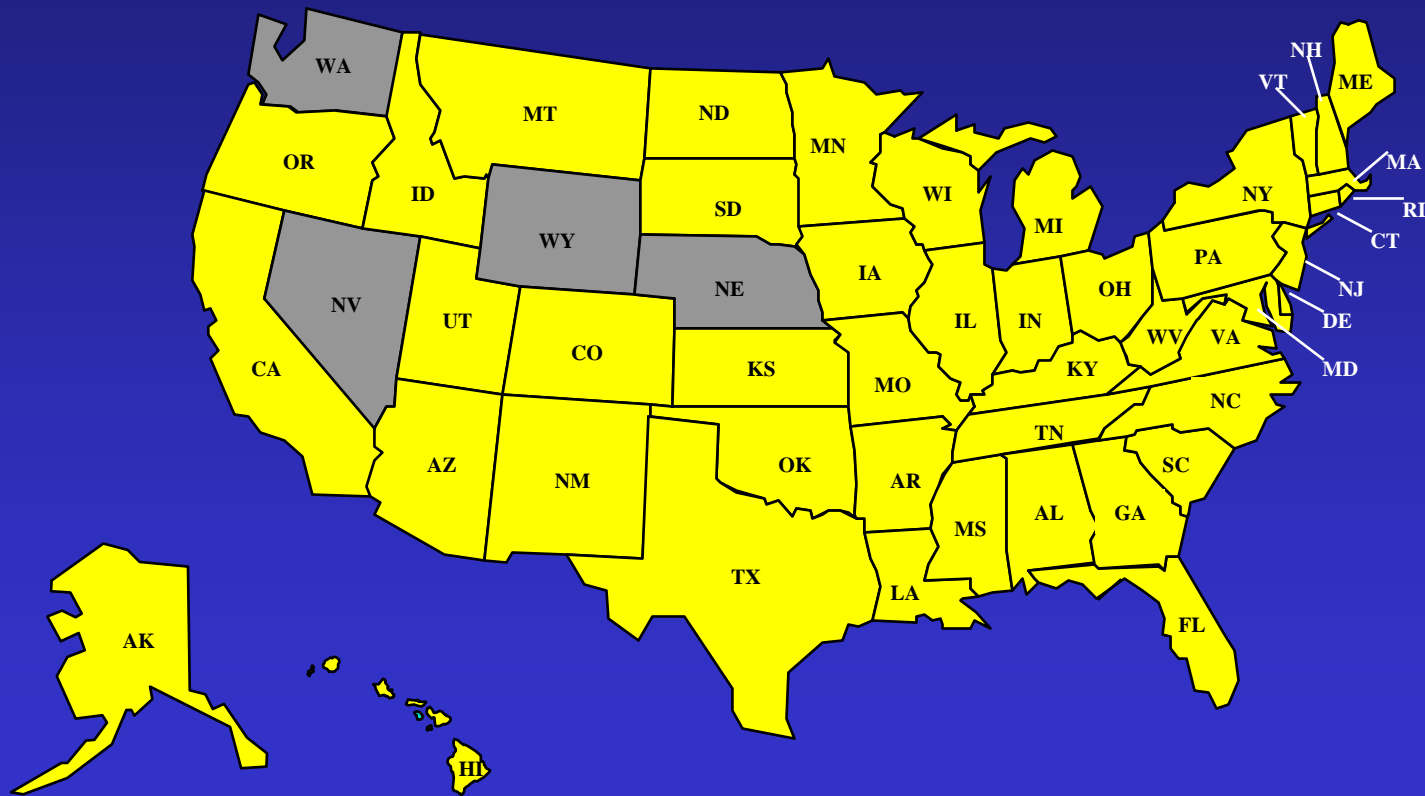
Property Taxes are imposed in all 50 states



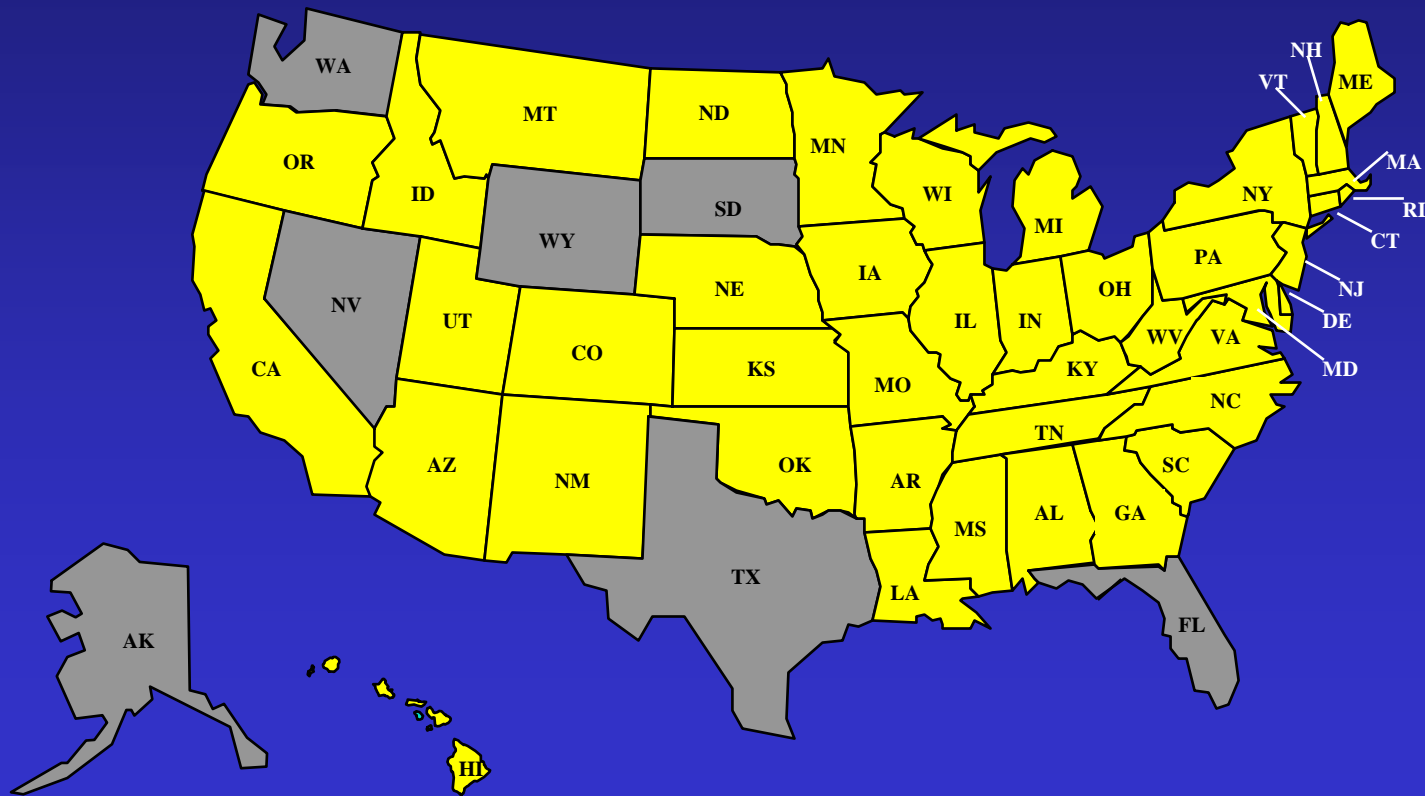
Sales Taxes are imposed in 46 states



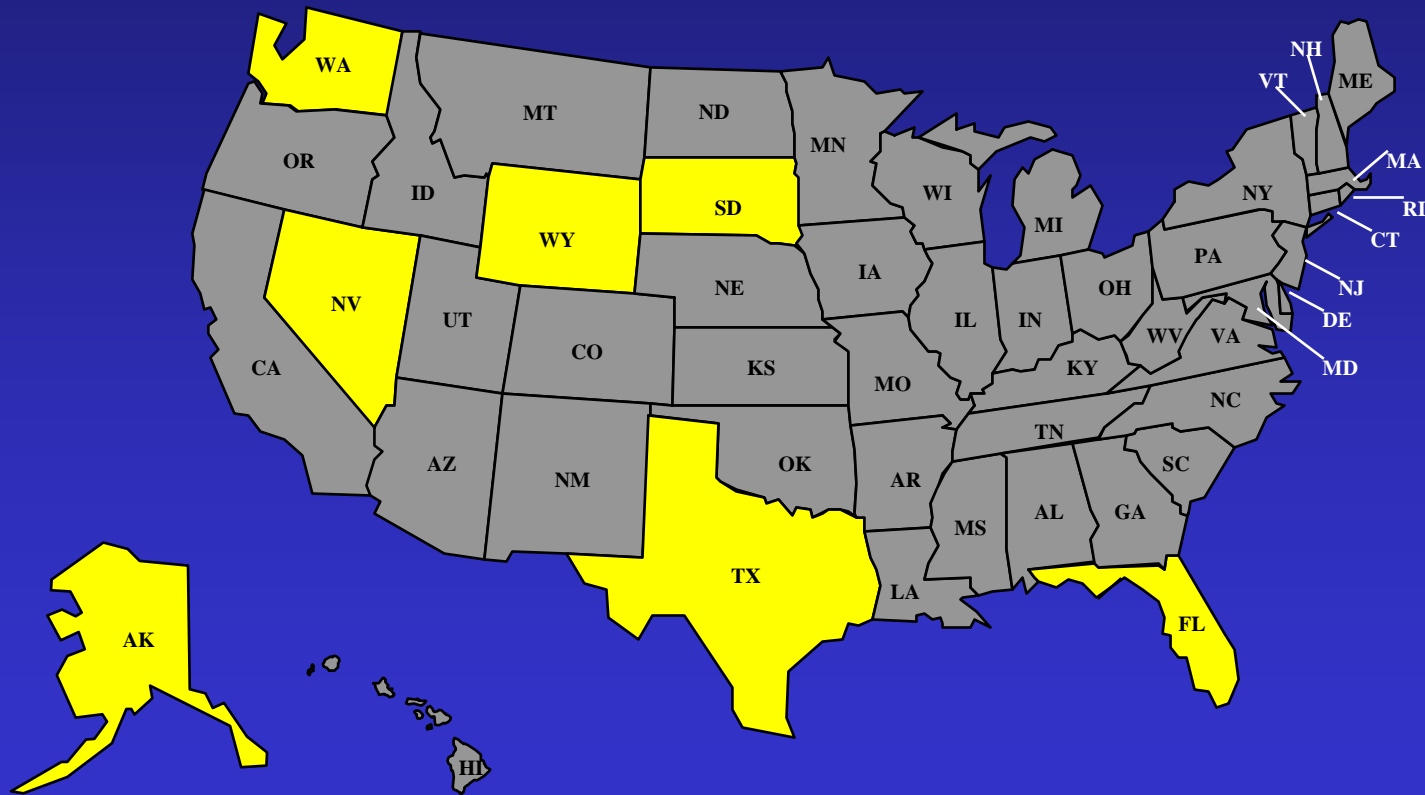
Corporate Income Taxes are imposed in 46 states



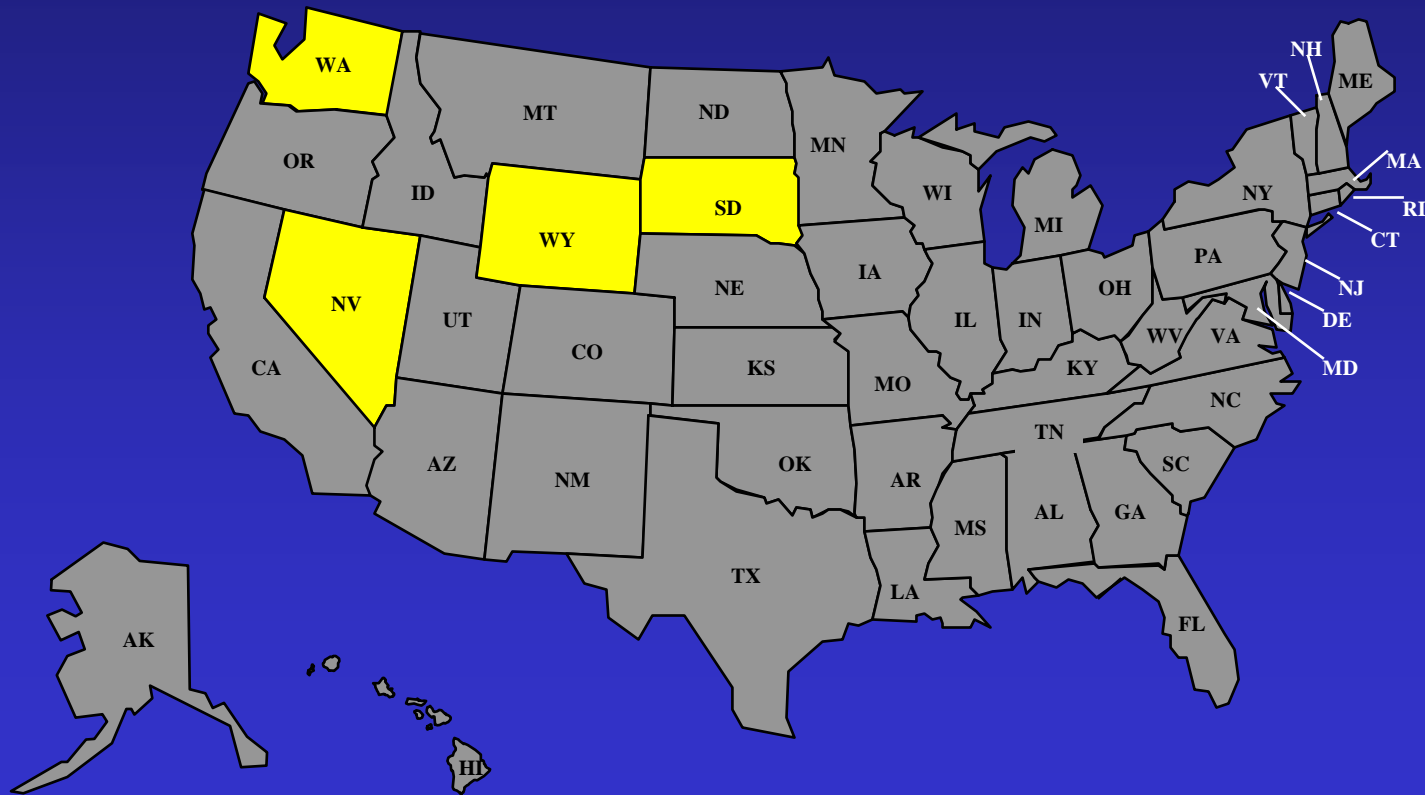
Personal Income Taxes are imposed in 43 states



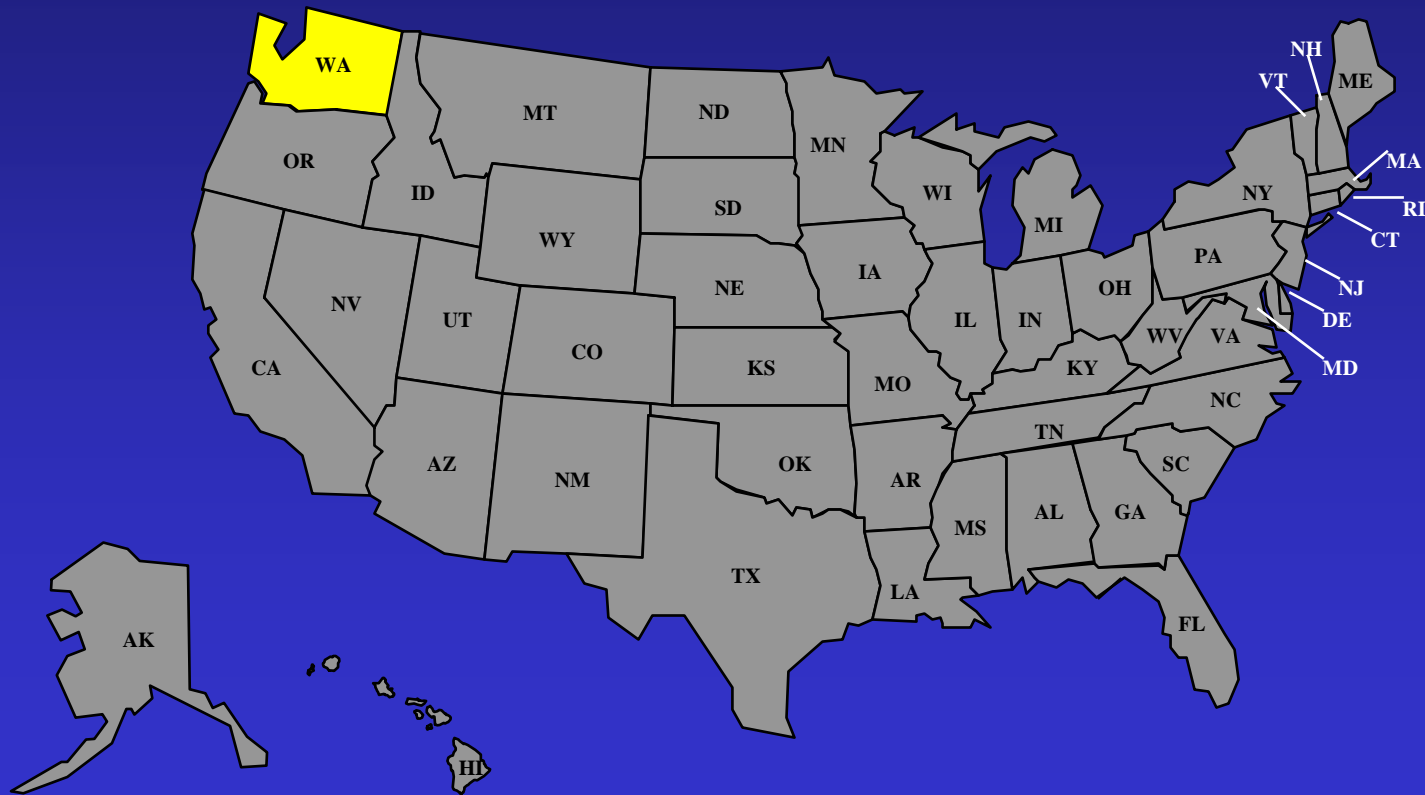
Washington is One of Seven States with a Sales Tax but No Personal Income Tax



Washington is One of Four States with a Sales Tax but No Personal or Corporate Income Tax



Washington is the Only State with a Gross Receipts (Business and Occupation) Tax



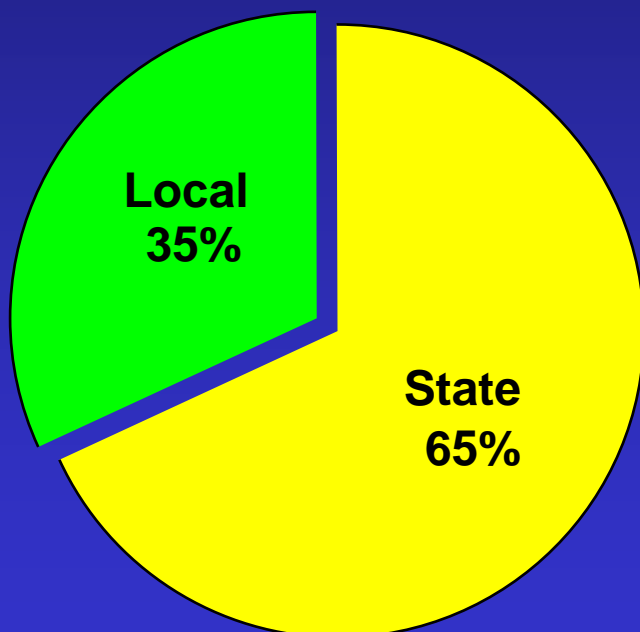
Washington is More Dependent on Sales Taxes Than the National Average

State and Local Taxes

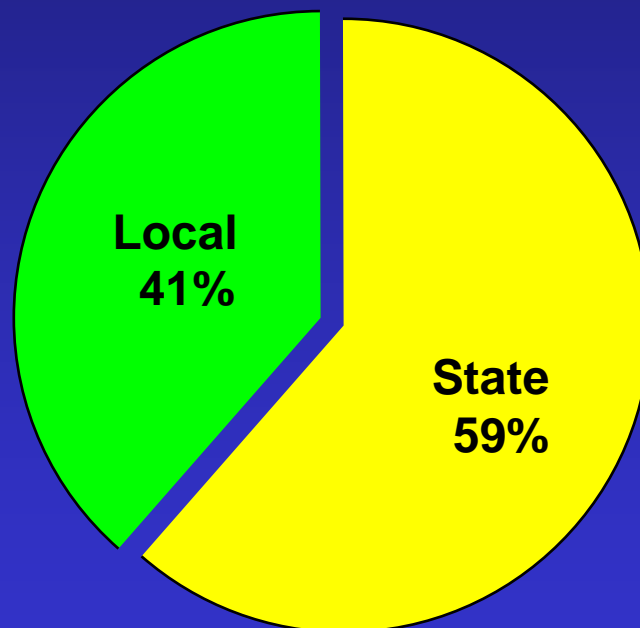


Washington's State/Local Tax Split Compared to the National State/Local Tax Split

Washington State



National Average



Major State Taxes

Retail Sales Tax

B&O Tax

Property Tax

Retail Sales & Use Tax

Tax Base: Purchases of tangible personal property and some services by individuals and business consumers. Includes construction, repair, lodging, participatory recreational activities, and some services such as telephone. Major exemptions: most personal & business services, motor vehicle fuel, utility services, groceries and manufacturing machinery.

Retail Sales & Use Tax

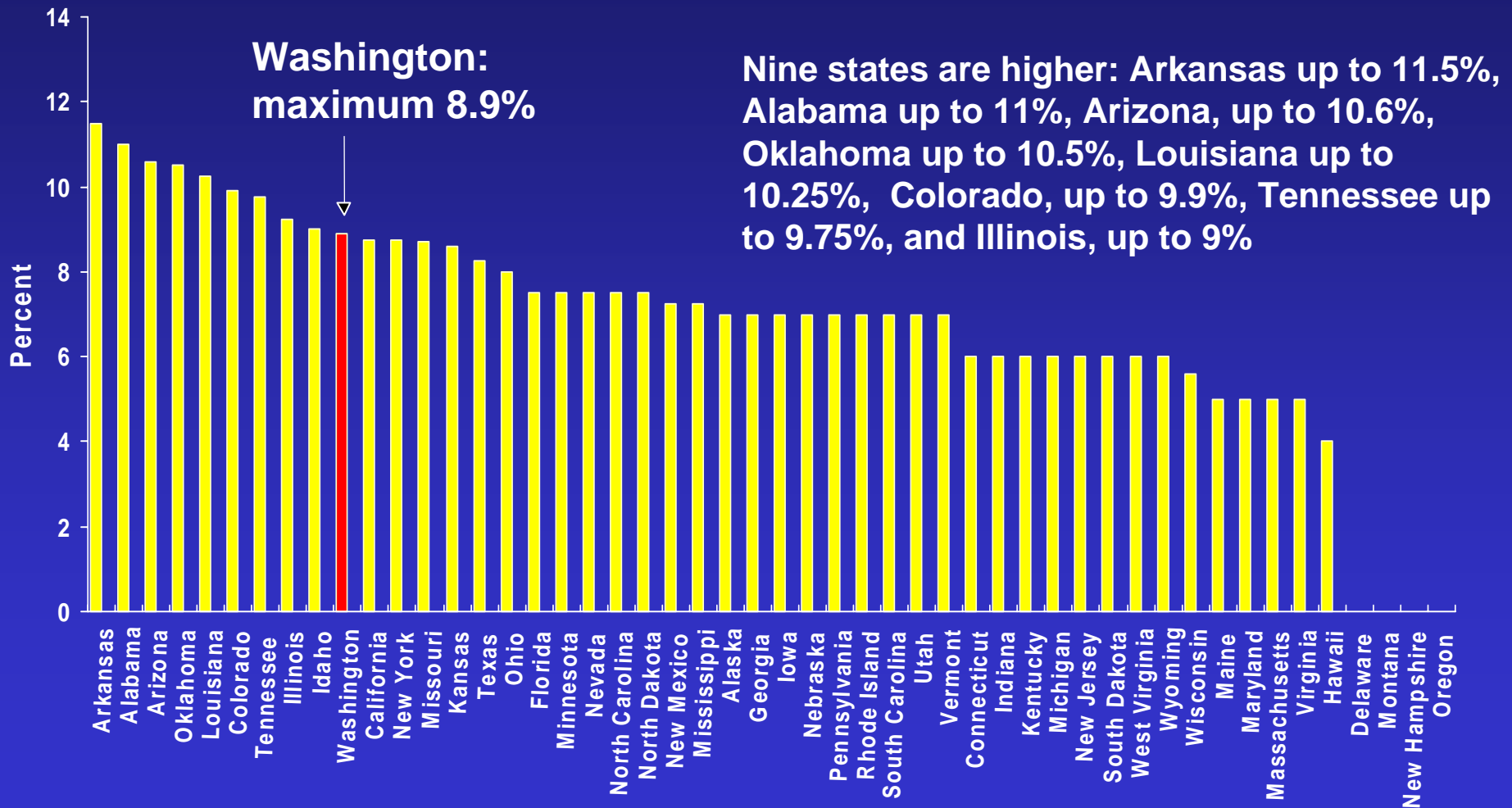
Tax Rate:

State:	6.5% (no change since 1983)
Local:	0.5% - 2.4% (average of 1.9%)
Maximum:	8.9% in urban area of Snohomish County

Collections (FY 2004):

State:	\$6.1 billion (54% of G.F. state sources)
Local:	\$2.0 billion (approx. 20% of all local taxes)

Maximum Combined State and Local Sales Tax Rates Among Highest in Nation



Source: Comparative State and Local Taxes, 2000

Retail Sales & Use Tax Advantages

- **Very productive**
- **Relatively popular (paid in small increments)**
- **Low cost of administration (no vendor reimbursement)**
- **Savings & investment are encouraged, since consumption is taxed**
- **Broader tax base than in many states (construction, repair, etc.)**

Retail Sales & Use Tax

Disadvantages

- **Regressive – heavy burden for low income households**
- **Heavy reliance contributes to unbalanced tax structure**
- **State/local rate is among the highest in the nation**
- **Collections can be volatile (witness 1981-82)**
- **High rate encourages avoidance (border sales, mail order, E-commerce)**

Retail Sales & Use Tax

Disadvantages (cont.)

- **Deters business investment, despite various incentives**
- **Not deductible for individuals who itemize federal deductions**
- **Coding of sales can be difficult for firms with multiple outlets**
- **Long-term structural change in the economy - reduced purchases of goods and growth in services (mostly non taxable)**

Business and Occupation Tax

Tax Base: Gross receipts derived from engaging in business within the state. Major exemptions: sale and rental of real estate, agricultural production, interest on 1st mortgages, investment income of nonfinancial firms.

Collections (FY 2004):

State: \$2.0 billion (15.7% of G.F. state sources)

Business and Occupation Tax

Major Tax Rates:

Manufacturing, wholesaling-0.484%

Retailing-0.471%

Services & hospitals-1.5%

Lower rates (0.275% or 0.138%) remain for selected activities such as meat processors, fruit & vegetable packers, travel agents, etc.

Business and Occupation Tax Advantages

- **Very productive (far more than corporate net income tax would produce)**
- **Compliance cost for the firm is relatively low**
- **The tax is more predictable and more easily built into price structure**
- **Low cost of administration (auditing is easier than net income tax)**
- **Assures that all firms pay some tax**
- **Collections are more stable in economic downturns**

Business and Occupation Tax Disadvantages

- **Heavy burden for firms with low profit margins and start-ups**
- **Unique tax; no other state has such a comprehensive gross receipts tax**
- **Variety of tax rates (although fewer now)**
- **Tax liability pyramids, thus favoring vertically integrated operations**
- **Deters business investment, despite various incentives and credits**

Property Tax

Tax Base: Assessed value of taxable real and personal property. County assessors determine the value of real property and business owners report the value of equipment and supplies; the state values intercounty utilities, commercial vessels and determines forest land values.

Property Tax

Levy Rates - taxes due in 2004
(\$ per \$1,000 of assessed value):

State levy	\$2.85
Regular local levy	5.09
Special local levy	<u>4.29</u>
Total nominal rate (average)	\$12.21
Avg. effective rate (% of market value)	1.12%

Property Tax

Levies due in 2004:

State \$1.53 billion (12% of G.F. state)

Local regular 2.71 billion

Local special 2.29 billion

Total levies \$6.53 billion

Share of total levies:

Schools - 55.5%

Counties - 17.6

Cities - 14.1

Junior taxing districts - 12.9

Property Tax

Advantages

- **Assessment/collection procedures are well-established**
- **Sense of local control due to county administration**
- **Correlation between property value and the cost of some local services**
- **The tax is very visible to property owners (paid twice yearly)**
- **Exemptions address unique situations (senior citizens, current use, *Washington State Constitution, Article VII, sec. 10 and 11*)**
- **In most years Wash. property taxes are about at the national average**

Property Tax Disadvantages

- **Assessed values have no relationship with income**
- **Values can jump dramatically, due to revaluation cycles**
- **The tax is influenced by the market, with no control by owners, especially elderly on fixed incomes (despite senior citizens exemption)**
- **Unpopular tax with the voters, leading to frequent initiatives**
- **Overall costs of administration are high, due to the appraisal system**

Property Tax

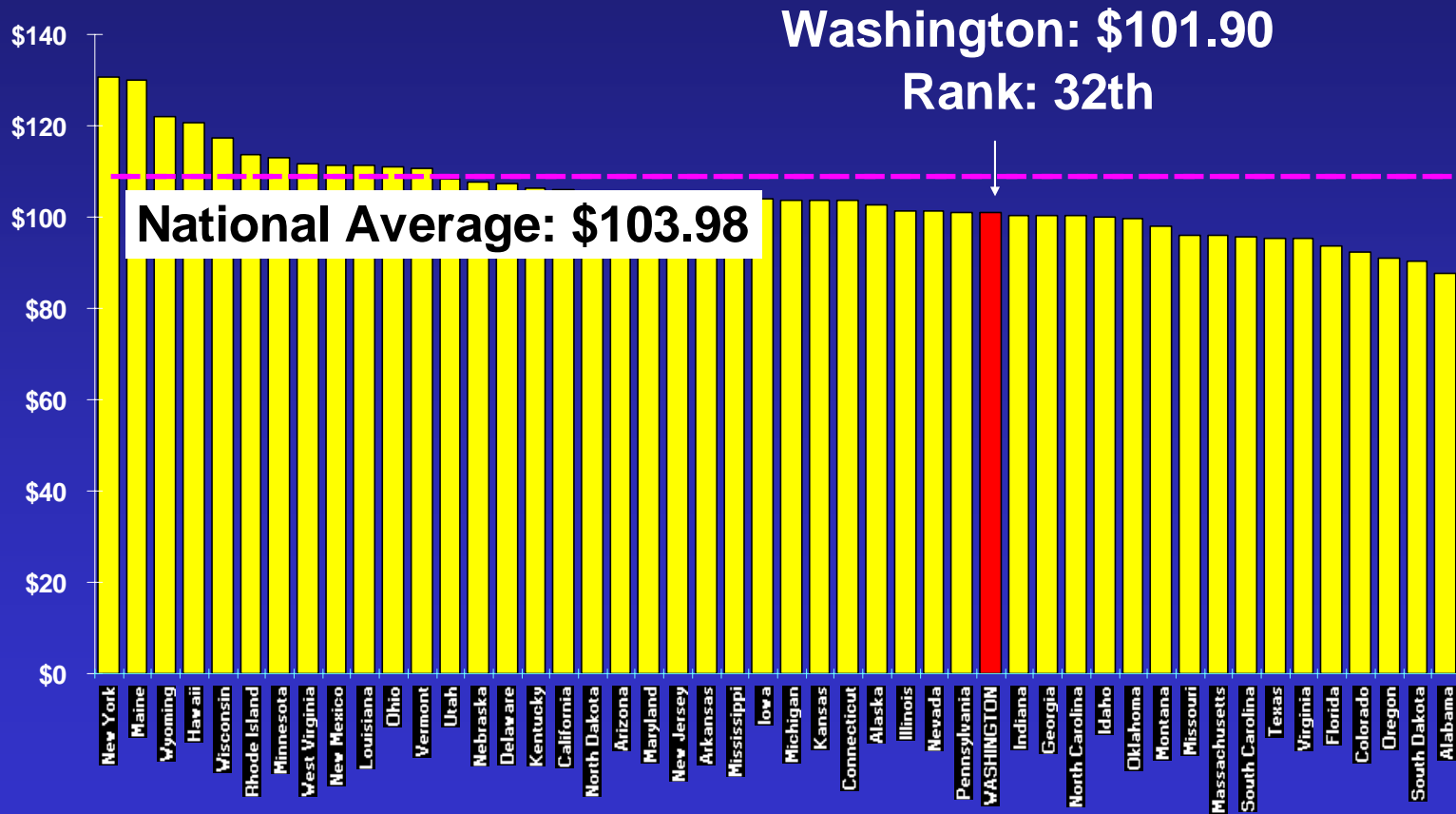
Disadvantages (cont.)

- **Some taxing districts are “poor” resulting in low revenues or higher tax rates**
- **Better suited to an agrarian economy when wealth equated with property**
- **Although lower than in the 1970s, schools must still rely upon special levies which cause a significant budget impact when they fail**
- **Special levy proposals must achieve 60% favorable vote**

Comparative Tax Burdens

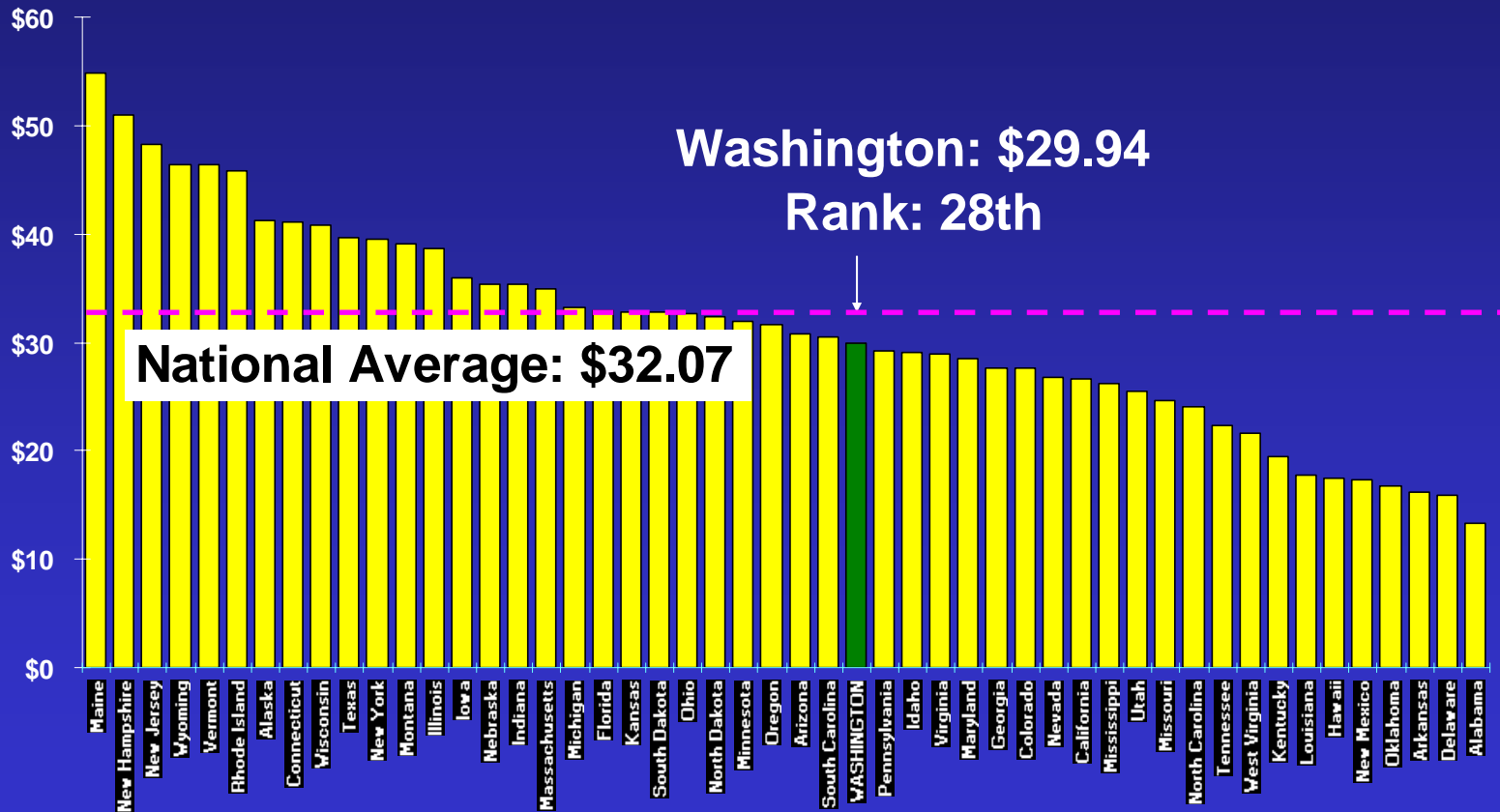
Washington's Tax Burden

State/Local Taxes per \$1,000 Personal Income - FY 2002

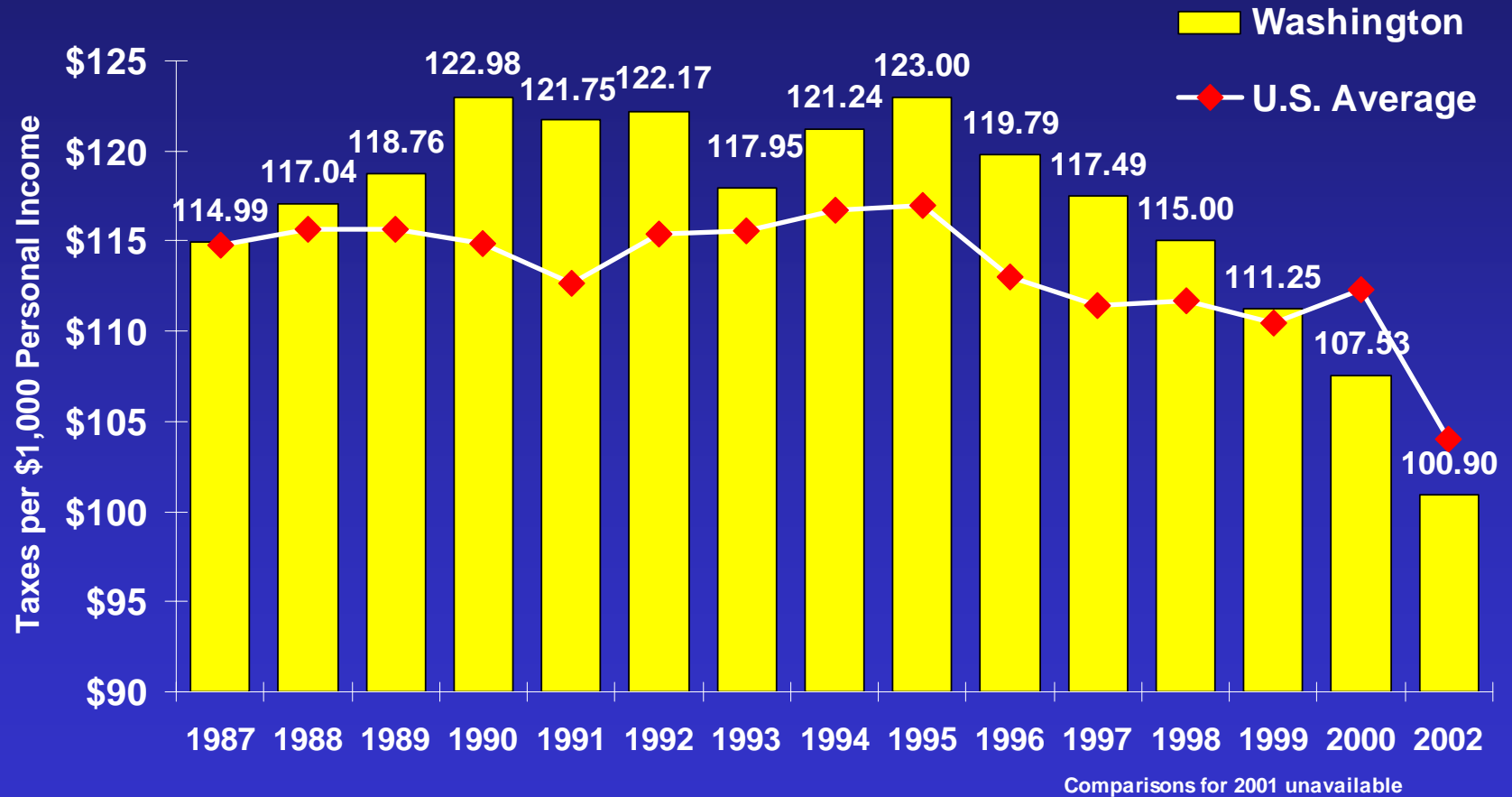


Washington Property Taxes

Taxes per \$1,000 Personal Income - FY 2002



State and Local Tax Burdens 1987-2002



Washington's National Ranking has Varied

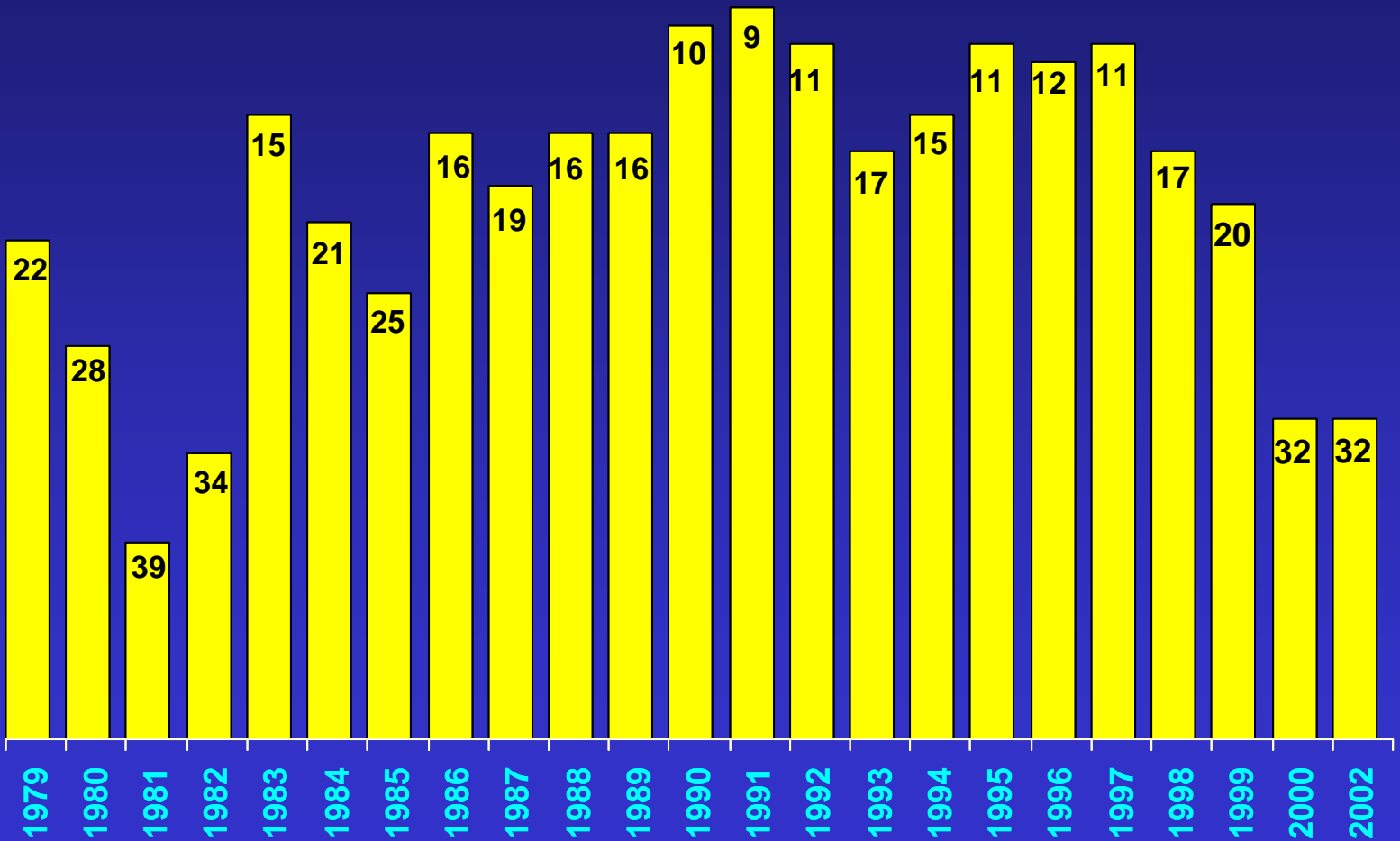
Rank Nationally 1979-2002

Highest

1st

50th

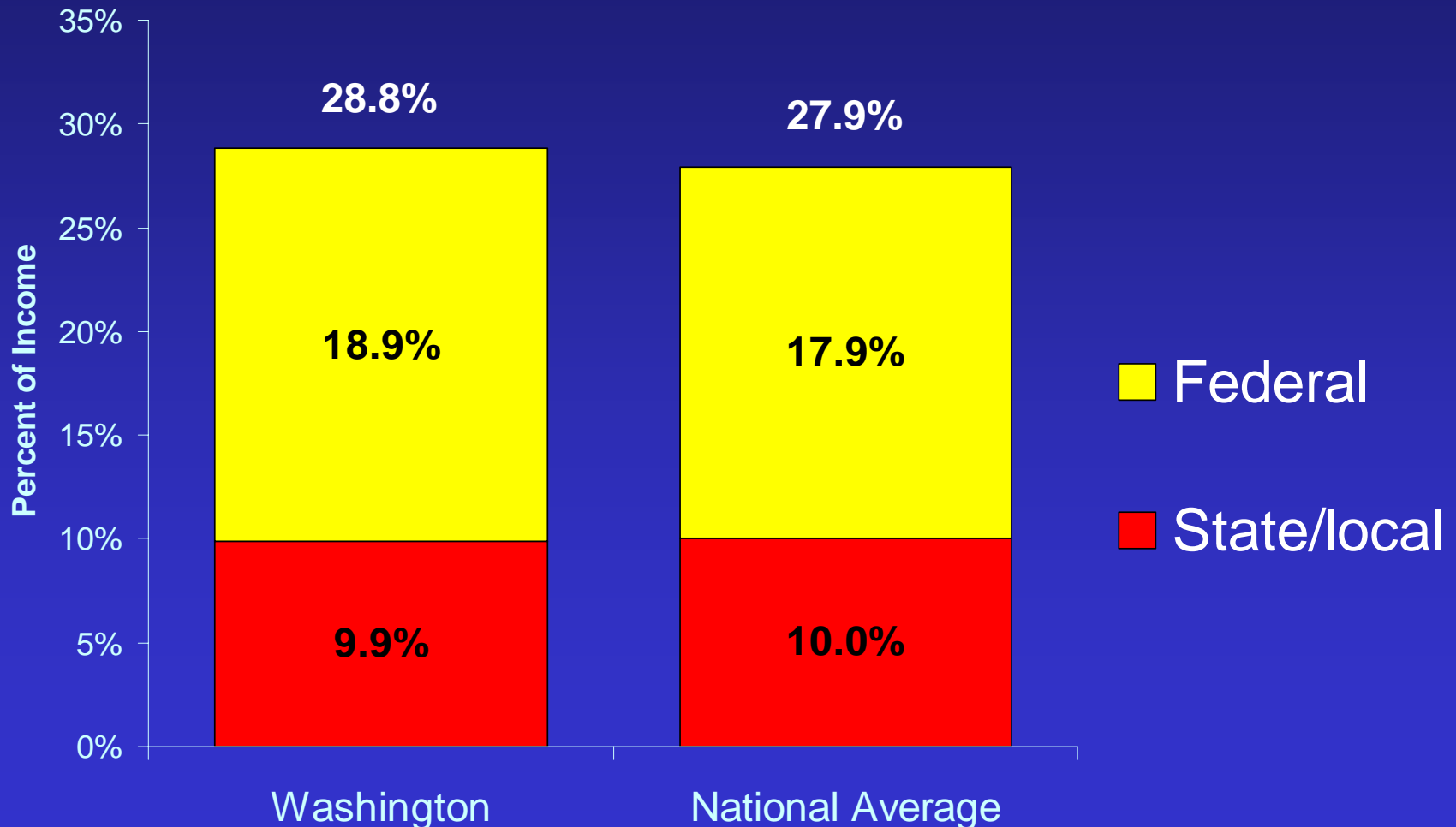
Lowest



2001 ranking unavailable

Federal, State and Local Taxes

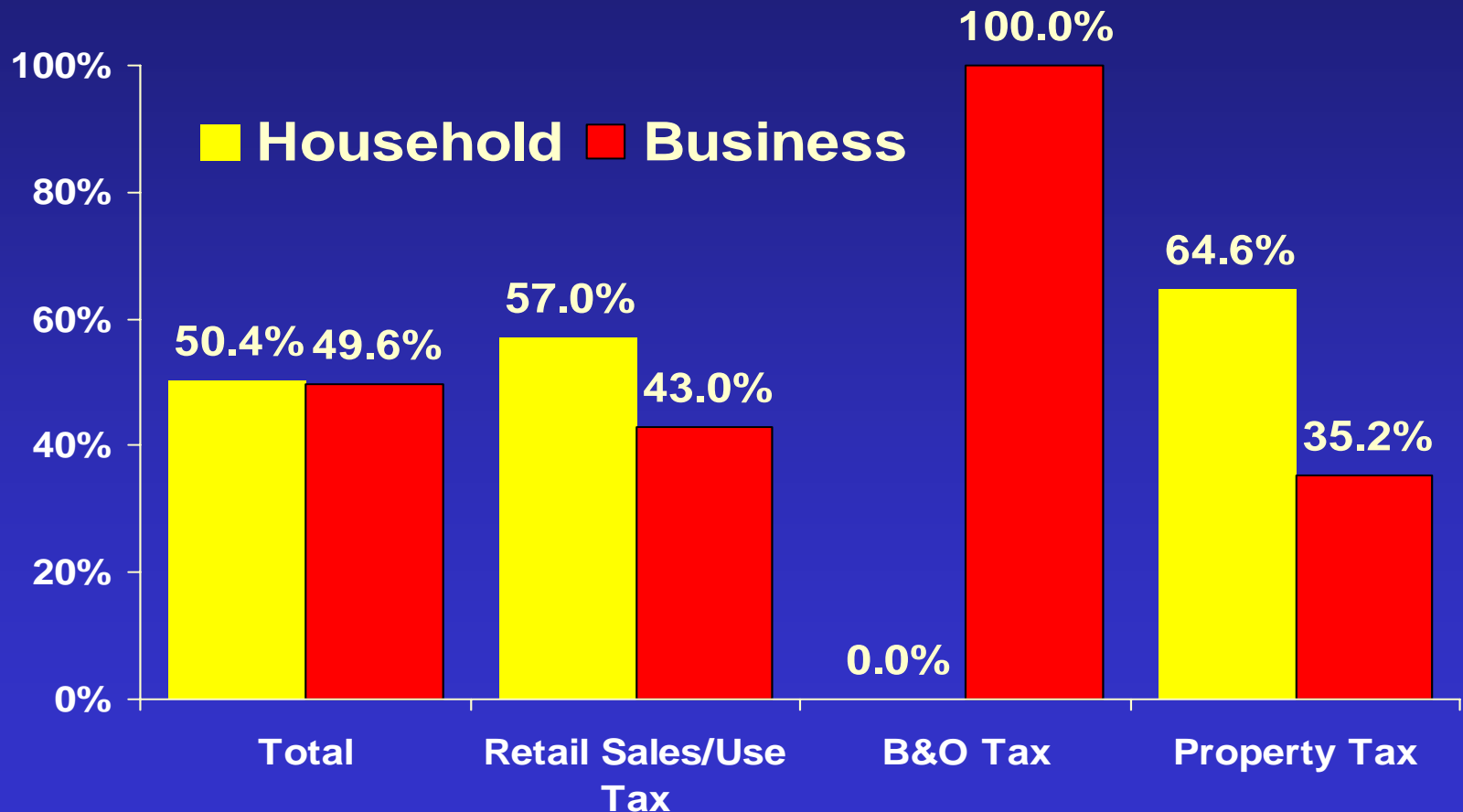
Percent of Income - Calendar Year 2004 Estimate



Business vs. Household Tax Burdens

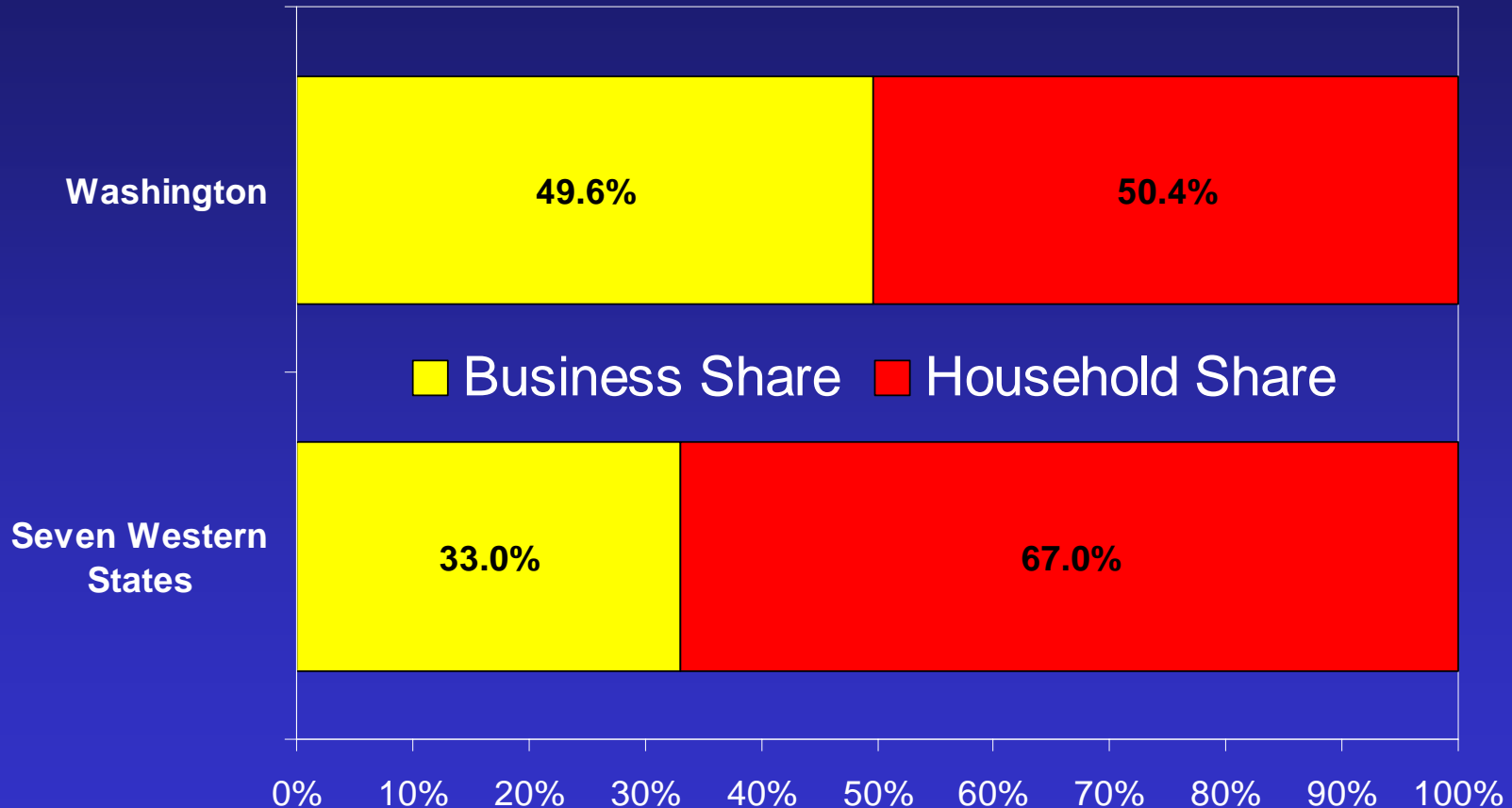
Share of Tax Burdens Paid by Households and Business

Washington State Taxes Paid (Initial Incidence) - FY 2004



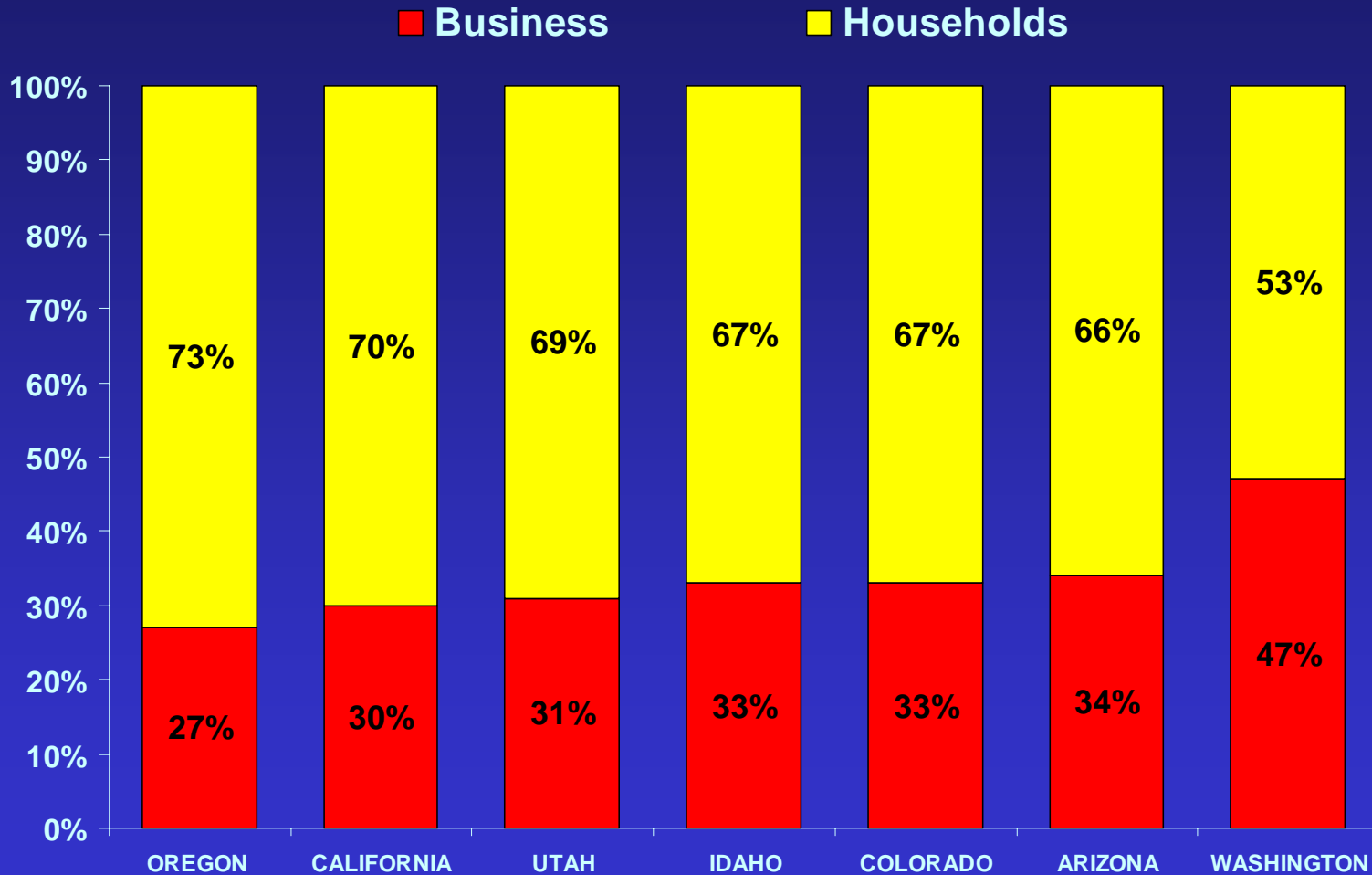
Businesses Pay Higher Share of Taxes

Initial incidence



Businesses Pay Higher Share of Taxes

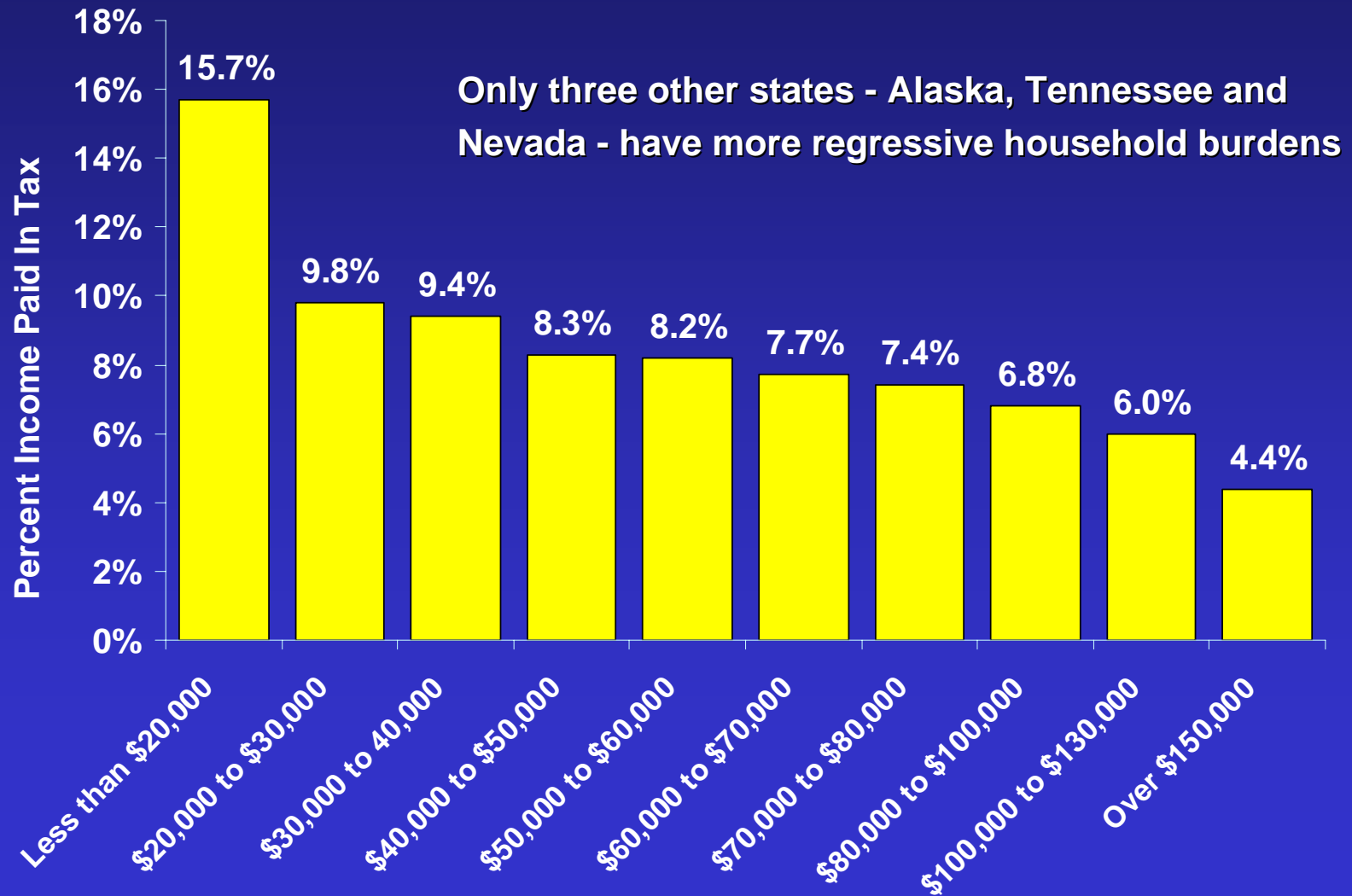
Initial incidence



Source: Utah Tax Commission

Household Tax Burdens Drop With Income

Major State and Local Taxes - Typical Households of Four



Household Tax Burdens

Percent of Income Paid In Major State and Local Taxes
Largest City in Each State



Source: 2003 Washington, D.C. survey of 50 States

Questions?